



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: February 13, 2026 — 9:30 AM ET]** Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were lower, with the Shanghai Composite down 1.3% and the Shenzhen Composite down 1.1%. US equity index futures are signaling a lower open.

With 370 companies having reported so far, S&P 500 earnings for Q4 are running at \$73.60 per share compared to estimates of \$71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 75.4% have exceeded expectations, while 19.7% have fallen short of expectations.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below with new items of the day in bold.

| Bi-Weekly Geopolitical Report   | Asset Allocation Bi-Weekly   | Asset Allocation Quarterly  | Of Note  |
|---|--|---|--|
| <a href="#">“US Foreign Policy: Comparing the New vs. Old”</a><br>(2/9/26)<br>+ <a href="#">podcast</a> | <a href="#">“The Erosion of Exorbitant Privilege”</a><br>(2/2/26)<br>+ <a href="#">podcast</a> | <a href="#">Q1 2026 Report</a><br><br><b><a href="#">Q1 2026 Rebalance Presentation</a></b> | <a href="#">Confluence Mailbag</a><br><br><a href="#">The Case for Hard Assets</a> |

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to [mailbag@confluenceim.com](mailto:mailbag@confluenceim.com).

Our *Comment* opens with our take on the recent “AI scare trade” and its role in amplifying market volatility. We then examine the EU’s push to reduce its security dependence on the United States. Next, we discuss White House pressure on firms to align their business models with its policy agenda, Kevin Warsh’s increasingly contentious confirmation battle, and Moscow’s bid to regain access to the US dollar system after the Ukraine conflict. We close with a summary of key economic data from the US and global markets.

**AI Transition:** AI may be entering a new phase in its product cycle. Renewed concerns about profitability across the tech sector sparked a broad equity sell-off on Thursday, following Cisco’s earnings report that, despite solid sales, [signaled margin pressure from rising memory-chip costs](#).

Investors also appear increasingly cautious about potential disruptions to established business models as AI-driven efficiency gains reshape corporate operations. The retreat comes amid mounting doubts about the durability of the recent market rally.

- In its latest quarter, [Cisco delivered a clear “double beat,” with revenue and earnings per share both coming in ahead of expectations](#), underscoring solid demand across its networking and AI-infrastructure portfolio. The company also lifted its full-year outlook, signaling confidence in its order pipeline. However, investors remain focused on signs that profit margins are being squeezed, as rising memory chip and other component costs weigh on gross margins and are expected to remain a headwind in coming quarters.
- These profitability and disruption fears are weighing not only on AI market leaders but also on established companies perceived to be vulnerable to replacement by emerging AI tools. The latest market move was triggered by former karaoke-equipment maker Algorhythm Holdings, now repositioned as an AI logistics firm, [which announced a new AI tool designed to reduce “empty miles” and significantly boost productivity](#). The news sent trucking and logistics stocks into a steep decline.
- Growing anxiety about how AI will affect profitability across sectors has helped fuel a broad “AI scare trade” in equity markets, with investors dumping stocks seen as vulnerable to AI-driven disruption or heavily exposed to AI-related spending. The sell-off has been most pronounced in the United States, where high-profile tech names, elevated valuations, and rapid AI adoption have amplified concerns about earnings sustainability and competitive pressures.
- While we believe the AI trade may still have some momentum, activity over the last few months suggests the sector is moving closer to a maturity phase. As a result, we view the recent volatility in tech as part of a natural shakeout, with investors moving away from hype and beginning to distinguish the winners from the losers. This is why we advocate for portfolios to broaden their exposure, including increasing international allocations, which could help balance the specific US tech risks associated with this transition.

**European Independence:** There are growing signs that Europe is seeking to make itself less dependent on the United States for its security, with renewed debate over a more autonomous European defense posture. A new survey published this week shows that [key NATO countries increasingly view the US as an unreliable ally](#) and doubt that American power can still effectively deter their adversaries. This erosion of confidence has led the bloc to take steps to ramp up its defense capabilities.

- Europe’s push to shore up its own security is also spurring investment in advanced defense technology. [France and Germany are in early talks with aerospace firm ArianeGroup](#) about a proposed land-based ballistic missile system intended to enhance Europe’s long-range strike and deterrence capabilities. The company has also been in the spotlight for successfully [flying the most powerful configuration of its Ariane 6 launcher](#), which recently lifted off under a European Space Agency mission.
- Additionally, the bloc may be beginning to rethink its stance on nuclear weapons. For the first time since the Cold War, [European governments and militaries are quietly discussing how they might develop their own nuclear deterrent](#) if US guarantees weaken. Against

this backdrop, there is growing speculation that French President Emmanuel Macron will deliver a new speech outlining how France's existing nuclear force could provide broader protection to Europe.

- Europe's changing attitude toward its own defense underscores a broader fracturing of the global order. As the US pulls back from its traditional hegemonic role and broad security guarantees, more countries are likely to step up defense spending to protect themselves. In Europe in particular, years of underinvestment mean this rearmament cycle could provide a meaningful tailwind for global defense and aerospace firms.

**White House Pressure:** Washington continues to signal a growing willingness to pressure private firms to align with the federal agenda. On Thursday, White House advisor Peter Navarro urged [JPMorgan Chase CEO Jamie Dimon to lower credit card interest rates as part of an effort to improve household affordability](#). Simultaneously, the Army chief of staff warned defense contractors that [they must modernize their practices or risk losing government contracts](#). These moves underscore a shift toward a more interventionist approach to guiding the economy.

**Warsh Confirmation:** Kevin Warsh appears headed for a tougher-than-expected confirmation battle as he seeks to take over the Federal Reserve. [Senator Thom Tillis \(R-NC\) has warned that he will withhold support](#) unless the Justice Department drops its investigation into the Fed's headquarters renovation, which he argues threatens the central bank's independence. Because Tillis holds a pivotal seat on the Senate Banking Committee, his opposition could significantly complicate Warsh's path to confirmation.

**Trade Restrictions:** The [White House is reportedly considering narrowing the scope of its metal tariffs](#). The shift comes as businesses struggle to plan around complex, hard-to-model tariff formulas and as the EU presses for changes as part of trade negotiations with Washington. The policy has also faced [mounting criticism because much of the burden has fallen on US firms and consumers](#). If the administration follows through, we expect trade policy to become less restrictive in the coming months, providing a modest tailwind for manufacturers.

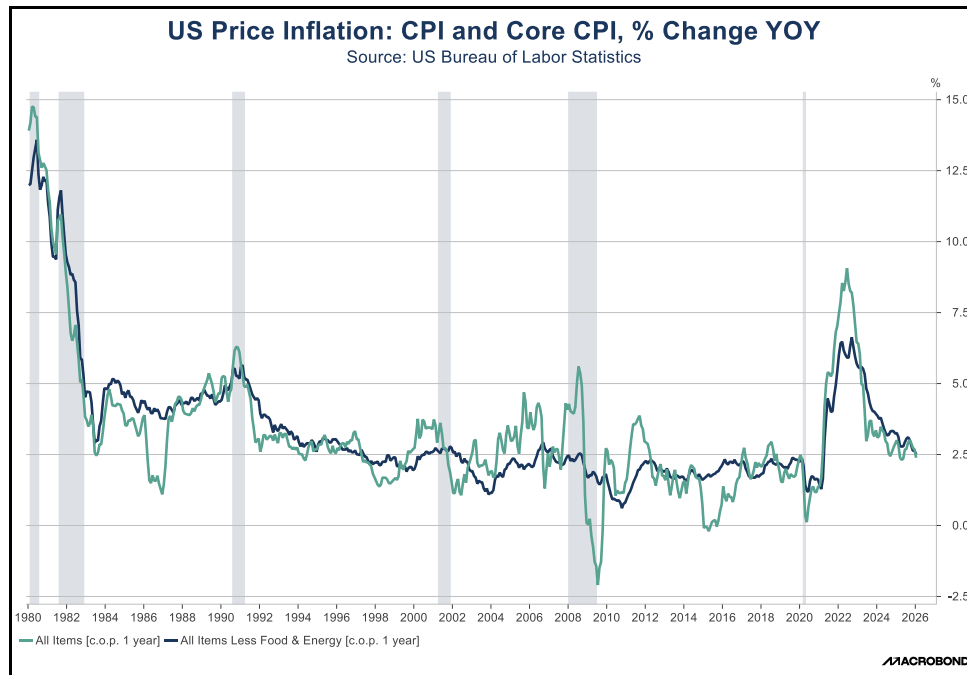
**Moscow Wants Dollars?** Moscow [has floated a proposal to rejoin the dollar-based financial system as part of a broader settlement](#) to end the conflict in Ukraine. Under the plan, Russia and the US would pursue an economic partnership that prioritizes continued fossil fuel development over a rapid shift to renewables, alongside joint ventures in other sectors designed to generate substantial windfalls for US companies. Taken at face value, the initiative suggests Moscow is seeking to rebuild and deepen economic ties with Washington once the conflict is resolved.

---

## US Economic Releases

The January *consumer price index (CPI)* rose by a seasonally adjusted 0.2%, a bit better than expectations that it would rise by the same 0.3% as in December. Excluding the volatile food and energy components, the "*core*" *CPI* rose 0.3%, matching both the expected rise and the increase in December. The overall CPI in January was up 2.4% from the same month one year earlier,

while the core CPI was up 2.5%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



There are no economic releases or Fed events scheduled for the rest of the day.

## Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant; thus, we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do shift over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

| Country             | Indicator                       |     |       | Current  | Prior    | Expected | Rating | Market Impact                |
|---------------------|---------------------------------|-----|-------|----------|----------|----------|--------|------------------------------|
| <b>ASIA-PACIFIC</b> |                                 |     |       |          |          |          |        |                              |
| <b>Japan</b>        | Japan Buying Foreign Bonds      | w/w | 6-Feb | -¥365.7b | ¥713.7b  |          | *      | Equity and bond neutral      |
|                     | Japan Buying Foreign Stocks     | w/w | 6-Feb | ¥162.7b  | ¥454.6b  |          | *      | Equity and bond neutral      |
|                     | Foreign Buying Japan Bonds      | w/w | 6-Feb | -¥464.1b | ¥2081.1b |          | *      | Equity and bond neutral      |
|                     | Foreign Buying Japan Stocks     | w/w | 6-Feb | ¥543.2b  | ¥494.6b  |          | *      | Equity and bond neutral      |
| <b>New Zealand</b>  | BusinessNZ Manufacturing PMI    | m/m | Jan   | 55.2     | 56.1     |          | ***    | Equity and bond neutral      |
|                     | 2-Year Inflation Expectations   | q/q | 1Q    | 2.37%    | 2.28%    |          | **     | Equity and bond neutral      |
| <b>South Korea</b>  | Export Price Index              | y/y | Jan   | 7.8%     | 5.0%     |          | *      | Equity and bond neutral      |
|                     | Import Price Index              | y/y | Jan   | -1.2%    | 0.5%     |          | *      | Equity and bond neutral      |
| <b>China</b>        | Aggregate Financing CNY YTD     | m/m | Jan   | 7720.0b  | 35600.0b | 7085.0b  | *      | Equity and bond neutral      |
|                     | New Yuan Loans CNY YTD          | m/m | Jan   | 4710.0b  | 16270.0b | 5000.0b  | *      | Equity and bond neutral      |
|                     | Money Supply M2                 | y/y | Jan   | 9.0%     | 8.5%     | 8.3%     | ***    | Equity bullish, bond bearish |
|                     | Money Supply M1                 | y/y | Jan   | 4.9%     | 3.8%     | 3.6%     | *      | Equity bullish, bond bearish |
|                     | Money Supply M0                 | y/y | Jan   | 2.7%     | 10.2%    |          | *      | Equity and bond neutral      |
|                     | BoP Current Account             | q/q | 4Q P  | \$242.1b | \$198.7b |          | **     | Equity and bond neutral      |
| <b>EUROPE</b>       |                                 |     |       |          |          |          |        |                              |
| <b>Eurozone</b>     | GDP                             | y/y | 4Q S  | 1.3%     | 1.3%     | 1.3%     | ***    | Equity and bond neutral      |
|                     | Trade Balance SA                | m/m | Dec   | 11.6b    | 10.2b    |          | *      | Equity and bond neutral      |
|                     | Employment                      | m/m | 4Q P  | 0.6%     | 0.6%     |          | *      | Equity and bond neutral      |
| <b>Germany</b>      | Wholesale Price Index           | y/y | Jan   | 1.2%     | 1.2%     |          | *      | Equity and bond neutral      |
| <b>Switzerland</b>  | CPI                             | y/y | Jan   | 0.1%     | 0.1%     | 0.1%     | ***    | Equity and bond neutral      |
|                     | CPI, EU Harmonized              | y/y | Jan   | 0.2%     | 0.2%     | 0.2%     | *      | Equity and bond neutral      |
|                     | Core CPI                        | y/y | Jan   | 5.0%     | 0.5%     | 0.5%     | *      | Equity and bond neutral      |
| <b>Russia</b>       | Gold and Forex Reserves         | m/m | 6-Feb | \$787.5b | \$826.8b |          | ***    | Equity and bond neutral      |
|                     | Money Supply, Narrow Definition | w/w | 6-Feb | 19.49t   | 19.40t   |          | *      | Equity and bond neutral      |
| <b>AMERICAS</b>     |                                 |     |       |          |          |          |        |                              |
| <b>Brazil</b>       | FGV Inflation IGP-10            | m/m | Feb   | -2.25%   | -0.99%   |          | **     | Equity and bond neutral      |
|                     | Retail Sales                    | y/y | Dec   | 2.3%     | 1.5%     | 2.8%     | ***    | Equity and bond neutral      |

## Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

| Fixed Income                | Today         | Prior        | Change          | Trend          |
|-----------------------------|---------------|--------------|-----------------|----------------|
| 3-mo T-bill yield (bps)     | 359           | 360          | -1              | Down           |
| U.S. Sibor/OIS spread (bps) | 365           | 365          | 0               | Down           |
| U.S. Libor/OIS spread (bps) | 363           | 363          | 0               | Down           |
| 10-yr T-note (%)            | 4.11          | 4.10         | 0.01            | #VALUE!        |
| Euribor/OIS spread (bps)    | 198           | 199          | -1              | Down           |
| <b>Currencies</b>           | <b>3 Mo</b>   |              |                 |                |
| Dollar                      | Down          | US           |                 | Down           |
| Euro                        | Up            | Euro         |                 | Up             |
| Yen                         | Up            | Japan        |                 | Up             |
| Pound                       | Up            | UK           |                 | Up             |
| Franc                       | Up            | Switzerland  |                 | Up             |
| <b>Central Bank Action</b>  | <b>Actual</b> | <b>Prior</b> | <b>Expected</b> |                |
| Bank of Russia Key Rate     | 15.50%        | 16.00%       | 16.00%          | Below Forecast |

## Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

|                             | Price         | Prior           | Change            | Explanation |
|-----------------------------|---------------|-----------------|-------------------|-------------|
| <b>Energy Markets</b>       |               |                 |                   |             |
| Brent                       | \$67.12       | \$67.52         | -0.59%            |             |
| WTI                         | \$62.37       | \$62.84         | -0.75%            |             |
| Natural Gas                 | \$3.16        | \$3.22          | -1.74%            |             |
| Crack Spread                | \$24.15       | \$24.31         | -0.64%            |             |
| 12-mo strip crack           | \$25.40       | \$25.53         | -0.53%            |             |
| Ethanol rack                | \$1.82        | \$1.81          | 0.61%             |             |
| <b>Metals</b>               |               |                 |                   |             |
| Gold                        | \$4,972.01    | \$4,922.19      | 1.01%             |             |
| Silver                      | \$77.52       | \$75.28         | 2.97%             |             |
| Copper Contract             | \$571.35      | \$578.55        | -1.24%            |             |
| <b>Grains</b>               |               |                 |                   |             |
| Corn contract               | \$441.25      | \$441.75        | -0.11%            |             |
| Wheat contract              | \$555.25      | \$558.50        | -0.58%            |             |
| Soybeans contract           | \$1,148.25    | \$1,152.25      | -0.35%            |             |
| <b>Shipping</b>             |               |                 |                   |             |
| Baltic Dry Freight          | 2,095         | 1,958           | 137               |             |
| <b>DOE Inventory Report</b> |               |                 |                   |             |
|                             | <b>Actual</b> | <b>Expected</b> | <b>Difference</b> |             |
| Crude (mb)                  | 8.53          | -0.02           | 8.55              |             |
| Gasoline (mb)               | 1.16          | 0.84            | 0.32              |             |
| Distillates (mb)            | -2.70         | -1.73           | -0.97             |             |
| Refinery run rates (%)      | -0.11%        | -0.50%          | 0.39%             |             |
| Natural gas (bcf)           | -249          | -258            | 9                 |             |

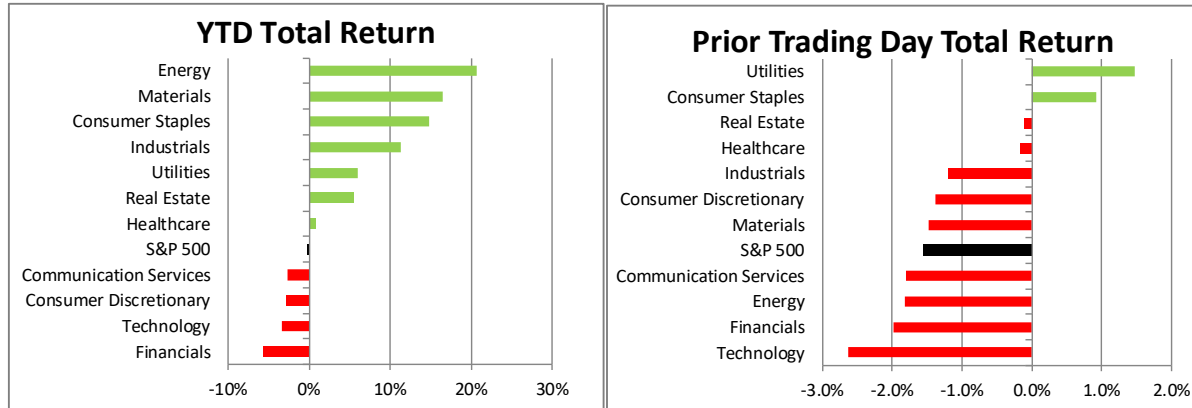
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the eastern slopes of the Rocky Mountains to the East Coast, with cooler-than-normal temperatures in the Far West. The outlook calls for wetter-than-normal conditions in the northern half of the country, with dry conditions in New Mexico, southern Texas, and southern Florida.



## Data Section

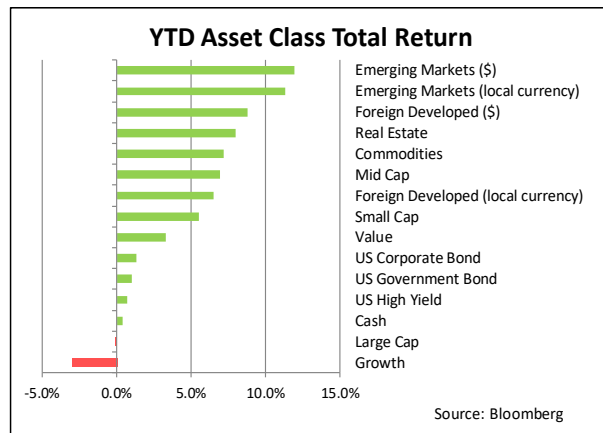
### US Equity Markets – (as of 2/12/2026 close)



(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

### Asset Class Performance – (as of 2/12/2026 close)

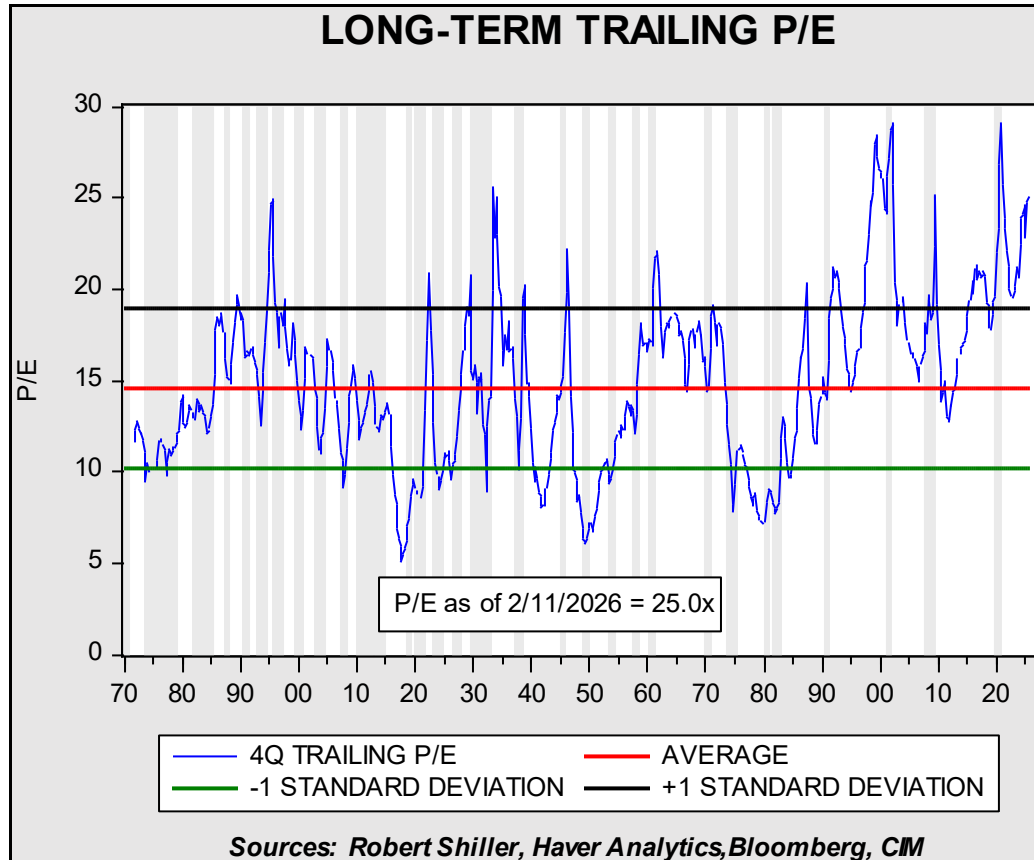


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx \$ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

## P/E Update

February 12, 2026



Based on our methodology,<sup>1</sup> the current P/E is 25.0x and is unchanged from the previous report. Last week, the stock price index and earnings were relatively unchanged.

*This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.*

<sup>1</sup> This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q2, Q4) and one estimate (Q3). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.